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RUCPDO/DEPT OF COMMERCE WASHDC
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUEHC/DEPT OF LABOR WASHDC
RHEFDIA/DIA WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RHMFISS/JOINT STAFF WASHINGTON DC
RHEHAAA/WHITE HOUSE WASHDC
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SUBJECT: OXY REFINERY PROJECT OFFERS GREAT OPPORTUNITIES,
BUT FACES POTENTIAL RISKS

REF: PANAMA 807

1. (SBU) SUMMARY. On June 27, 2007, EconOff met with Occidental Petroleum Corporation (Oxy) executives to discuss the status of Oxy's and Qatar Petroleum's (QP) proposed \$7 billion, 350,000 barrel per day refinery in Puerto Armuelles, Panama. Oxy executives said that they have only just begun to discuss concession terms with the GOP. Oxy executives stressed that the refinery is a larger, more complex and more costly project than the \$5.25 billion Panama Canal expansion. Oxy executives said GOP officials appeared to only now have begun to understand the scale and size of the project, and that they may not have understood the complexity involved in building a large-scale refinery. The refinery will employ 10,000 workers during its peak construction period, which will coincide with the Panama Canal's peak construction period. Oxy does not believe Panama can supply the skilled workers the project will require. Oxy executives said the QP delegation is very impressed with Panama and may seek additional investments, particularly in the telecommunications sector. The refinery project provides great opportunities to Panama, but also faces risks from a possibly ill-prepared and overwhelmed GOP, a currently over-stretched infrastructure, and a largely unskilled labor pool. Oxy recognizes that it could ultimately become a scapegoat for rising energy prices or any future aggravation of Panama's energy, unemployment, and wealth distribution problems. END SUMMARY.

Status and Scope of the Refinery Project

2. (SBU) On June 27, 2007, EconOff met with Oxy executives Antonio D'Amico, Assistant General Counsel, Cameron LaBrache, Energy Project Development Manager, and William Behrendt, Director of Project Development, to discuss the status of Oxy's and QP's proposed \$7 billion, 350,000 barrel per day refinery in Puerto Armuelles, Panama. D'Amico said Oxy and QP have begun concession terms negotiations with the GOP during the week of June 17. D'Amico said that to date there

are no contentious issues because the parties are just now laying out the issues which need to be addressed. D'Amico said that there is a disagreement as to whether Oxy would receive tax credits it was expecting for the electrical power plant to be built as part of the refinery. D'Amico said Oxy is currently focused on assessing the project's costs to determine viability. Construction would be scheduled to begin in 2009/2010 with completion in 2013/2014.

¶3. (U) Oxy executives stressed that the refinery is a larger, more complex and more costly project than the \$5.25 billion Panama Canal expansion. The refinery will require a larger amount of workers, a larger amount of skilled, specialized labor, and a larger amount of construction equipment. Behrendt said that almost all of the construction equipment will need to be imported and the amount of equipment needed will be on a scale heretofore not seen in Panama since the original construction of the Panama Canal.

¶4. (SBU) D'Amico said when Oxy presented Ministry of Commerce and Industry (MICI) officials with details of the construction process, along with pictures of a similar refinery currently under construction in India, the officials were taken aback by the project's magnitude. All three executives said the MICI officials appeared to only now have begun to understand the scale and size of the project. D'Amico said he did not feel that the MICI officials had understood the complexity involved in building a large-scale refinery.

More Workers Than the Panama Canal Expansion Project

¶5. (U) Behrendt said that during the refinery's peak construction period in 2010/2011, the project would employ up to 10,000 workers. The refinery's peak construction peak would coincide with the Panama Canal expansion project's peak construction period of 2009-2011. The Panama Canal Authority projects it will need 7,000-9,000 workers during its peak construction peak. Upon completion, the refinery is expected to employ 300 full-time workers.

¶6. (SBU) The Oxy executives realize that the Panamanian labor force does not have sufficient educated, skilled workers to meet their labor needs. Behrendt said Oxy will look to hire Panamanians for the unskilled and low-skilled positions, but will need to bring in the bulk of the highly skilled, highly specialized workers from other countries. LaBrache said that unlike the Panama Canal expansion project, which is a civil engineering project with limited need for highly skilled or specialized labor, the refinery will need a larger number of computer technicians, systems engineers, specialized electronics workers, and petroleum engineers.

Sources of Crude and Market for Products

¶7. (SBU) D'Amico said the refinery would refine heavy crude oil from the Middle East, West Africa, and Brazil. There are no current plans to refine any Venezuelan crude. The principal market for the oil would be the West Coast of the United States. LaBrache said Oxy believes there would also be a strong market in Central America.

Why Panama and Puerto Armuelles

¶8. (SBU) When asked why build a refinery in Panama, D'Amico said the Puerto Armuelles deep water port was the principal reason for choosing Panama. He also said having a facility outside of the United States allows them to avoid the Jones Act requirement of having to use only U.S. flagged vessels to serve U.S. markets. D'Amico said that while these factors were important in choosing Panama, Oxy would have preferred building a refinery in the U.S. but the regulatory

environment there made it "impossible."

¶9. (U) Puerto Armuelles is located on the Pacific coast near the Costa Rican border. The city has fallen on hard times ever since the United Fruit Company (Chiquita Banana) closed its facility in 2003. The Puerto Armuelles area has a population of approximately 18,000 people and an unemployment rate of approximately 26%. The GOP is particularly hopeful that the refinery would spin-off ancillary firms, such as petrochemical plants, to further create employment opportunities in the region.

Qataris Impressed with Panama

¶10. (SBU) D'Amico reported that the Qatari delegation has been very impressed with the economic and investment climate in Panama. According to D'Amico, the Qataris have expressed a desire to make additional investments in Panama, particularly in the telecommunications sector. D'Amico said several members of the Qatari delegation said that they believe Panama has the potential to a regional economic center. D'Amico said several Qataris told him Panama reminds them of what Doha was ten years ago.

Comment - Tremendous Opportunities and Risks

¶11. (SBU) The refinery is a major opportunity for Panama to continue its march to becoming a regional logistics and distribution center for goods and oil, diversify its economic base, receive technology and know-how transfer, and obtain much needed jobs in an economically depressed area. The 200-megawatt electrical power plant to be built as part of the refinery also will help address the country's increasingly critical energy needs. Qatari direct investment in other sectors could also help continue Panama's impressive economic growth, which is running at a 9.4% annual rate through the first quarter of 2007. The Qataris' initial impressions of Panama are typical of many first time potential investors, but contrast with the more pragmatic view of more established foreign investors.

¶12. (SBU) The danger lies in that few Panamanians seem to fully appreciate the magnitude of the refinery project. The GOP has little to no experience in the energy sector. It has neither a centralized energy ministry nor a history of expertise in managing large scale energy projects. The GOP could easily be overwhelmed by the managerial and societal demands of the Panama Canal expansion and the refinery.

¶13. (SBU) The refinery, combined with the Panama Canal expansion project, will stretch the limits of Panama's current infrastructure and labor market. Faced with an already overburdened transportation system, an energy sector reaching its limits to provide the country's current needs, a shortage of skilled labor for existing projects, and an educational system unable to produce skilled workers, Panama will be hard pressed to supply the needs of two simultaneous multi-billion dollar infrastructure projects. Likewise, the resultant social demands for basic services will pose a strong challenge to already weak government institutions.

¶14. (SBU) Oxy executives are attuned to the risks involved. They realize that if energy prices continue to rise, as Panama experiences possible brown-outs, if foreign labor is seen as taking jobs from Panamanians, if inflation increases, and if the benefits of the refinery and other projects appear to accrue only to foreigners and a select few, an American oil company could become an easy and attractive target for blame and retribution. END COMMENT.
Eaton